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# Insurers remain prime targets for private equity: AM Best

By Editorial Staff *Thu, Jul 1, 2021*

*A new Best's Special Report, 'Insurance Companies Remain Prime Targets for Private Equity,' notes that the annuity insurers' business model is a prime target for the new private equity model, offering a reliable revenue stream of invested capital while also offering permanent capital that is stable and positioned for the long term.*

The private equity industry has significantly increased its exposure in the life/annuity (L/A) insurance industry over the last decade, with private equity-owned or sponsored insurers' admitted assets growing to $604.1 billion in 2020 from $67.4 billion in 2011, according to a new AM Best report.

A new *Best's Special Report*, "Insurance Companies Remain Prime Targets for Private Equity," notes that the annuity insurers' business model is a prime target for the new private equity model, offering a reliable revenue stream of invested capital while also offering permanent capital that is stable and positioned for the long term. According to the report, annuity premium has accounted for more than 70% of direct premiums written at private equity-owned/sponsored companies since 2011.

Additionally, private equity firms also have infused considerable amounts of capital to spur rapid growth—a strategy that insurers do not typically execute well. In the first year of private equity ownership, 38% of companies reported increases of over 20% in capital and surplus, rising to 43% in year No. 2 and 50% in year No. 3. Overly competitive crediting rates for immediate growth can be severely detrimental over the long term, if higher investment returns are not realized, leading to operating losses and ultimately diminishing overall financial strength.

As stated in the report, nearly two thirds of private equity insurers also increased their use of reinsurance, as evidenced by a higher ceded/gross premium ratio, by the end of the first year of private equity ownership, compared with the year before they were acquired. Since 2015, approximately half the premium ceded by private equity insurers was ceded out of the United States, with Bermuda accounting for nearly all of it.

The increased number of private equity firms entering the insurance market is clear: The percentage of admitted assets owned by these insurers compared with the total L/A industry increased to nearly 7.5% at year-end 2020, from 1.2% in 2011. The investment strategies implemented by private equity owners and sponsors has led to higher yields for insurers. AM Best views the maintenance of proper asset-liability management guidelines and investment risk within tolerable levels as imperative.

However, the report also notes that over the past few years, private equity firms have gotten comfortable with managing insurance assets while adhering to the constraints imposed on their portfolios, such as regulatory and rating agency capital charges for asset risk, asset-liability matching requirements and liquidity concerns. As more insurance companies are acquired by private equity firms, the ramifications may become more pronounced for other insurers competing in the same markets.